

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Township of Richmond	County Macomb
Audit Date June 30, 2005	Opinion Date November 4, 2005	Date Accountant Report Submitted To State: December 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 10 S. Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

**Township of Richmond  
Macomb County, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# Township of Richmond

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## Independent Auditor's Report

To the Board of Trustees  
Township of Richmond  
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Richmond as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Richmond, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Richmond as of June 30, 2005 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

November 4, 2005



A worldwide association of independent accounting firms

# **Township of Richmond**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Township of Richmond, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- Total net assets related to the Township's governmental activities decreased by approximately \$79,000.
- General government expenditures increased by approximately \$43,000 this year.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant fund, the General Fund. The fiduciary fund statement provides financial information about activity for which the Township acts solely as an agent for the benefit of those outside of the government.

# Township of Richmond

## Management's Discussion and Analysis (Continued)

### Township of Richmond as a Whole

The following table shows the net assets of the governmental activities in a condensed format as of June 30, 2005 in comparison to the prior year (in thousands of dollars).

TABLE I

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Current assets	\$ 407	\$ 536
Noncurrent assets	<u>1,700</u>	<u>1,670</u>
Total assets	2,107	2,206
<b>Liabilities</b>		
Current liabilities	78	65
Long-term liabilities	<u>295</u>	<u>328</u>
Total liabilities	<u>373</u>	<u>393</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	927	948
Restricted	211	109
Unrestricted	<u>596</u>	<u>756</u>
Total net assets	<u><u>\$ 1,734</u></u>	<u><u>\$ 1,813</u></u>

The Township's combined net assets decreased 4 percent from a year ago - decreasing from approximately \$1,813,000 to \$1,734,000. Unrestricted net assets are the portion of net assets that can be used to finance day-to-day operations. At June 30, 2005, approximately \$596,000 of the Township's net assets are unrestricted.

# Township of Richmond

## Management's Discussion and Analysis (Continued)

The following table shows the comparison of changes of the net assets of the governmental activities during the year ended June 30, 2005 to the prior year (in thousands of dollars).

TABLE 2	2005	2004
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 245	\$ 239
Operating grants and contributions	12	13
General revenue:		
Property taxes	226	188
State-shared revenue	231	226
Unrestricted investment earnings	9	2
Transfers and other revenue	58	55
Total revenue	781	723
<b>Program Expenses</b>		
General government	404	395
Public safety	228	153
Public works	197	150
Recreation and culture	18	19
Interest on long-term debt	13	20
Total program expenses	860	737
<b>Change in Net Assets</b>	<b>\$ (79)</b>	<b>\$ (14)</b>

### Governmental Activities

The Township's total governmental revenues were approximately \$781,000. The three largest revenue items are charges for services, including permits and garbage collection fees, which total 31.4 percent of the revenue, state-shared revenue at 29.6 percent, and property taxes at 28.9 percent. This fiscal year, total revenue increased compared to the prior year due to the growth in property tax revenues. General government expenses account for almost half of the total amounts expended. In total, there was a reduction in net assets totaling approximately \$79,000.

# **Township of Richmond**

## **Management's Discussion and Analysis (Continued)**

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### **The General Fund**

Our analysis of the Township's General Fund (the Township's only major fund) begins on page 8, following the government-wide financial statements. The fund financial statements provide detail information about the most significant fund, not the Township as a whole. The General Fund pays for the Township's governmental services. The most significant costs relate to general government services and public safety, which incurred approximately \$350,000 and \$225,000 of expenditures this year, respectively.

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to increase the expenditure for miscellaneous expenditures by \$12,500. The Township's General Fund fund balance decreased to \$505,000 at June 30, 2005.

### **Capital Asset and Debt Administration**

At the end of 2005, the Township had \$1,255,000 invested in a broad range of capital assets, including buildings, furniture, and office equipment.

### **Economic Factors and Next Year's Budgets and Rates**

It is expected that the Township's property tax millages will remain the same next year. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.



# Township of Richmond

## Statement of Net Assets June 30, 2005

	Primary Government Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 211,370
Receivables:	
Accounts	112,695
Intergovernmental	75,514
Prepaid costs	7,000
Restricted assets (Note 1)	183,900
Investment in joint venture (Note 8)	261,221
Capital assets (Note 5):	
Nondepreciable	489,000
Depreciable - Net	765,977
Total assets	2,106,677
<b>Liabilities</b>	
Accounts payable	40,602
Accrued and other liabilities	2,940
Deferred revenue (Note 4)	533
Noncurrent liabilities (Note 6):	
Due within one year	33,426
Due in more than one year	294,905
Total liabilities	372,406
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	926,646
Restricted:	
Fire protection	183,900
Building code surplus	26,871
Liquor law enforcement	890
Unrestricted	595,964
Total net assets	<u><u>\$ 1,734,271</u></u>

# Township of Richmond

## Statement of Activities Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
			Operating	Primary Government
	Expenses	Charges for Services	Grants and Contributions	Governmental Activities
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
General government	\$ 404,272	\$ -	\$ -	\$ (404,272)
Public safety	227,798	72,679	-	(155,119)
Public works	196,926	172,064	-	(24,862)
Recreation and culture	17,657	-	12,118	(5,539)
Interest on long-term debt	13,365	-	-	(13,365)
Total primary government	<u>\$ 860,018</u>	<u>\$ 244,743</u>	<u>\$ 12,118</u>	(603,157)
General revenues:				
Property taxes				226,484
State-shared revenues				230,624
Unrestricted investment earnings				8,912
Miscellaneous				58,132
Total general revenues				524,152
<b>Change in Net Assets</b>				(79,005)
<b>Net Assets - Beginning of year</b>				1,813,276
<b>Net Assets - End of year</b>				<u>\$ 1,734,271</u>

# Township of Richmond

## Governmental Funds Balance Sheet June 30, 2005

	Major Fund - General Fund	Nonmajor Governmental Fund - Liquor Law Enforcement Fund	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 210,416	\$ 954	\$ 211,370
Receivables:			
Accounts	112,695	-	112,695
Intergovernmental	75,514	-	75,514
Prepaid costs	7,000	-	7,000
Restricted assets (Note 1)	183,900	-	183,900
Total assets	<u>\$ 589,525</u>	<u>\$ 954</u>	<u>\$ 590,479</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 40,538	\$ 64	\$ 40,602
Accrued liabilities	2,940	-	2,940
Deferred revenue (Note 4)	41,369	-	41,369
Total liabilities	84,847	64	84,911
<b>Fund Balances</b>			
Reserved for:			
Fire protection	183,900	-	183,900
Building code surplus	26,871	-	26,871
Prepaid costs	7,000	-	7,000
Unreserved, reported in:			
General Fund	286,907	-	286,907
Special Revenue Funds	-	890	890
Total fund balances	504,678	890	505,568
Total liabilities and fund balances	<u>\$ 589,525</u>	<u>\$ 954</u>	<u>\$ 590,479</u>
<b>Fund Balance - Total Governmental Funds</b>			\$ 505,568
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			1,254,977
The investment in joint venture is not reported in the funds			261,221
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(328,331)
Revenue related to receivables is reported in the statement of net assets at the time it is earned without regard to timeliness of remittance			40,836
<b>Net Assets - Governmental Activities</b>			<u><b>\$ 1,734,271</b></u>

# Township of Richmond

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	Major Fund - General Fund	Nonmajor Governmental Fund - Liquor Law Enforcement Fund	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 226,484	\$ -	\$ 226,484
Licenses and permits	71,978	-	71,978
Federal grants	12,118	-	12,118
State-shared - Grants and other revenues	226,724	-	226,724
Charges for services	172,064	-	172,064
Interest	8,912	-	8,912
Other	58,132	701	58,833
Total revenue	776,412	701	777,113
<b>Expenditures</b>			
Current:			
General government	350,167	-	350,167
Public safety	225,304	509	225,813
Public works	193,653	-	193,653
Recreation and culture	13,269	-	13,269
Capital outlay	5,497	-	5,497
Debt service	52,518	-	52,518
Total expenditures	840,408	509	840,917
<b>Excess of Revenue Over (Under) Expenditures</b>	(63,996)	192	(63,804)
<b>Fund Balances - Beginning of year</b>	568,674	698	569,372
<b>Fund Balances - End of year</b>	<u>\$ 504,678</u>	<u>\$ 890</u>	<u>\$ 505,568</u>

# Township of Richmond

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (63,804)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	5,497
Depreciation expense	(62,993)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	3,900
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	36,303
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Income from joint venture is not recorded in the funds	<u>2,092</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ (79,005)</u></b>
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# **Township of Richmond**

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## **Fiduciary Fund - Agency Fund Statement of Assets and Liabilities June 30, 2005**

<b>Assets</b> - Cash and investments (Note 3)	<b>\$ 65,750</b>
<b>Liabilities</b> - Cash bonds and deposits	<b>\$ 65,750</b>

# **Township of Richmond**

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## **Notes to Financial Statements June 30, 2005**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Township of Richmond (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Richmond:

#### **Reporting Entity**

The Township of Richmond is governed by an elected five-member board of trustees. The accompanying financial statements present the Township of Richmond, Macomb County, Michigan. There are no component units required to be included in these financial statements.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# Township of Richmond

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## Notes to Financial Statements June 30, 2005

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the agency fund financial statement. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Township reports the following major fund:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Township reports the following fund types:

**Special Revenue Fund (Liquor Law Enforcement Fund)** - The Special Revenue Fund is used to account for the proceeds of earmarked revenue requiring separate accounting because of legal or regulatory provisions.

**Fiduciary Fund - Agency Funds** - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.



# Township of Richmond

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Property Tax Revenue

Property taxes are assessed as of December 31 and become a lien on December 1 of the following year. The related property taxes are billed on July 1 of the following year and are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The 2004 taxable valuation of the Township totaled \$120 million, on which taxes levied consisted of 0.8169 mills for operating purposes and 1.1600 mills for fire protection and EMS. This resulted in approximately \$98,000 and \$139,000 for operating and fire protection, respectively. These amounts are recognized in the General Fund financial statements as tax revenue.

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Prepaid Costs** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

**Restricted Assets** - Restricted assets at June 30, 2005 consist of cash and cash equivalents restricted for fire protection services.

**Capital Assets** - Capital assets, which include property and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 years
Office furnishings	20 years
Equipment	5 to 10 years
Vehicles	15 years

# Township of Richmond

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## Notes to Financial Statements June 30, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The annual budget is prepared by the Township supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America for the General Fund and Special Revenue Fund.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

# Township of Richmond

## Notes to Financial Statements June 30, 2005

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Excess of Expenditures Over Appropriations** - During the year, the Township incurred expenditures that were in excess of the amounts budgeted in the General Fund, as follows:

	Amended Budget	Actual
Clerical salaries	\$ 45,000	\$ 56,287
Postage and supplies	14,875	15,743
Attorney	36,000	36,522
Printing and publishing	5,000	5,306
Utilities	8,900	11,102
Miscellaneous	17,500	19,869
Dues and conferences	4,700	4,738
Assessor	18,400	19,813
Zoning enforcement officer	6,060	6,079
Equipment and building maintenance	12,826	14,512
Elections	3,480	4,221
Cemetery	500	540
Ambulance service	78,090	129,022
Landfill services	137,346	149,330
Recreation and cultural	10,800	13,269
Debt service	46,357	52,518

The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

# Township of Richmond

## Notes to Financial Statements June 30, 2005

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Construction Code Fees** - The Township tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the Township is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under the provisions of the Act, the Township adopted this accounting treatment effective January 1, 2000. Activity for the year ended June 30, 2005 was as follows:

Cumulative surplus - July 1, 2004	\$ 10,967
2004-2005 building department activity:	
Current year revenue	\$ 71,978
Current year expenditures	<u>(56,074)</u>
Excess of revenue over expenditures	<u>15,904</u>
Cumulative surplus - June 30, 2005	<u>\$ 26,871</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated nine banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, and the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

# Township of Richmond

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$134,414 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of the Township's investments are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 147,171	Not Rated	N/A
Mutual fund	102,630	Aaa	Moody's

# Township of Richmond

## Notes to Financial Statements June 30, 2005

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
State-shared revenues	\$ 40,836	\$ -
Grant payments received prior to meeting all eligibility requirements	-	533
Total	<u>\$ 40,836</u>	<u>\$ 533</u>

### Note 5 - Capital Assets

Capital asset activity of the Township's governmental activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated - Land	\$ 489,000	\$ -	\$ -	\$ 489,000
Capital assets being depreciated:				
Buildings and improvements	1,063,548	5,497	-	1,069,045
Office furnishings	51,276	-	-	51,276
Equipment	62,606	-	-	62,606
Vehicles	38,197	-	-	38,197
Subtotal	1,215,627	5,497	-	1,221,124
Accumulated depreciation:				
Buildings and improvements	329,067	52,893	-	381,960
Office furnishings	11,776	2,564	-	14,340
Equipment	44,172	4,990	-	49,162
Vehicles	7,139	2,546	-	9,685
Subtotal	392,154	62,993	-	455,147
Net capital assets being depreciated	823,473	(57,496)	-	765,977
Net capital assets	<u>\$ 1,312,473</u>	<u>\$ (57,496)</u>	<u>\$ -</u>	<u>\$ 1,254,977</u>

# Township of Richmond

## Notes to Financial Statements June 30, 2005

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 50,599
Public safety	1,985
Public works	524
Recreation and culture	<u>9,885</u>

Total governmental activities	<u>\$ 62,993</u>
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### Note 6 - Long-term Debt

The Township of Richmond enters into installment purchase agreements for the construction of facilities and the acquisition of equipment. Installment purchase agreements are general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	(Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
Installment purchase agreements -						
Building construction:						
Amount of issue: \$500,000	3.73%	\$11,342 -				
Maturing through 10/5/2013		\$22,606	\$ 360,496	\$ (32,165)	\$ 328,331	\$ 33,426
EMS vehicle:						
Amount of issue: \$29,791	0.00%	\$828				
Maturing through 11/5/2004			4,138	(4,138)	-	-
Total governmental activities			<u>\$ 364,634</u>	<u>\$ (36,303)</u>	<u>\$ 328,331</u>	<u>\$ 33,426</u>

# Township of Richmond

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 33,426	\$ 12,104	\$ 45,530
2007	34,702	10,828	45,530
2008	36,001	9,528	45,529
2009	37,401	8,129	45,530
2010	38,829	6,701	45,530
2011-2013	147,972	11,413	159,385
Total	<u>\$ 328,331</u>	<u>\$ 58,703</u>	<u>\$ 387,034</u>

### Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for all the above claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 8 - Joint Venture

The Township is a member of the Richmond-Lenox E.M.S. Ambulance Authority (the "Authority"). The Authority is organized under the Ambulance Authority Act of the State of Michigan, with each township having a 50 percent interest. The Authority was established to provide the citizens of the two townships, as well as surrounding communities, with an emergency medical service through contractual agreements. The Township appoints two members to the joint venture's governing board. The board of both Richmond Township and Lenox Township approves the annual budget.

The Township's equity interest in the joint venture at June 30, 2005, the latest available financial report, is \$261,221. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements can be obtained from the Township office at 34900 School Section Road, Richmond, MI 48062.



## **Required Supplemental Information**

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# Township of Richmond

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b><u>Revenue</u></b>				
Property taxes	\$ 229,201	\$ 229,201	\$ 226,484	\$ (2,717)
Licenses and permits	60,000	60,000	71,978	11,978
Federal sources	6,600	6,600	12,118	5,518
State sources	234,857	234,857	226,724	(8,133)
Interest	-	-	8,912	8,912
Garbage collection	135,700	135,700	172,064	36,364
Other	50,000	50,000	58,132	8,132
Total revenue	716,358	716,358	776,412	60,054
<b><u>Expenditures</u></b>				
<b>General Government</b>				
Administration:				
Clerical salaries	45,000	45,000	56,287	(11,287)
Payroll taxes	12,000	12,000	11,690	310
Postage and supplies	12,000	14,875	15,743	(868)
Attorney	36,000	36,000	36,522	(522)
Audit and accounting	18,000	18,000	17,265	735
Other professional services	27,000	30,300	21,760	8,540
Telephone	5,000	5,000	3,344	1,656
Printing and publishing	5,000	5,000	5,306	(306)
Insurance	14,465	14,465	14,465	-
Utilities	8,600	8,900	11,102	(2,202)
Street lights	3,800	4,231	2,749	1,482
Miscellaneous	5,000	17,500	19,869	(2,369)
Dues and conferences	4,500	4,700	4,738	(38)
Employee benefits	9,300	9,300	8,771	529
Total administration	205,665	225,271	229,611	(4,340)

# Township of Richmond

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures</b> (Continued)				
<b>General Government</b> (Continued)				
Assessor	\$ 17,000	\$ 18,400	\$ 19,813	\$ (1,413)
Trustees	6,000	6,000	5,915	85
Zoning enforcement officer	6,000	6,060	6,079	(19)
Equipment and building maintenance	12,600	12,826	14,512	(1,686)
Board of appeals	800	800	335	465
Elections	2,500	3,480	4,221	(741)
Planning commission	3,200	3,200	2,709	491
Board of review	1,300	1,300	920	380
Cemetery	500	500	540	(40)
Supervisor	19,200	19,200	19,070	130
Deputy supervisor	2,500	2,500	400	2,100
Clerk	18,850	20,300	20,249	51
Deputy clerk	1,600	1,600	650	950
Treasurer	24,700	24,700	24,543	157
Deputy treasurer	1,600	1,600	600	1,000
Total general government	324,015	347,737	350,167	(2,430)
<b>Public Safety</b>				
Ambulance service	78,090	78,090	129,022	(50,932)
Inspector's salary	45,000	50,830	43,197	7,633
Fire contracts	53,085	53,086	53,085	1
Total public safety	176,175	182,006	225,304	(43,298)
<b>Landfill Services</b>	132,000	137,346	149,330	(11,984)
<b>Highways and Streets</b>	44,500	44,500	44,323	177
<b>Recreation and Cultural</b>	10,800	10,800	13,269	(2,469)
<b>Capital Outlay</b>	12,000	12,000	5,497	6,503
<b>Debt Service</b> - Note redemption and interest	46,000	46,357	52,518	(6,161)
Total expenditures	745,490	780,746	840,408	(59,662)
<b>Excess of Expenditures Over Revenue</b>	<u>\$ (29,132)</u>	<u>\$ (64,388)</u>	<u>\$ (63,996)</u>	<u>\$ 392</u>

November 3, 2005

Board of Trustees  
Township of Richmond  
34900 School Section Road  
Richmond, MI 48062

Dear Board Members:

We have recently completed our audit of the financial statements of the Township of Richmond for the year ended June 30, 2005. In addition to the audit report and letter to the Board, we offer the following comments and recommendations for your consideration:

**Internal Control Matters**

In planning and performing our audit of the financial statements of the Township of Richmond for the year ended June 30, 2005, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted instances involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses:

Bank account reconciliations are one of the key elements of internal control since they are the primary means of maintaining control over cash management. Account reconciliations also help ensure that all receipts and disbursements are appropriate and

accounted for correctly. During the year ended June 30, 2005, bank account reconciliations were not performed on a timely basis. In addition, as bank account reconciliations were prepared, they were not reviewed by someone independent of the cash management function. In order to establish adequate internal control over the cash management function, complete and accurate bank reconciliations should be prepared on a monthly basis with review of the reconciliation by a second individual.

We also noted a lack of segregation of duties exists since one individual performs virtually all of the accounting processing, including the processing of payroll. In a small office setting, adequate segregation of duties is challenging. In addition, there was a transition in the clerk position mid-year, which created more challenges. However, controls may be enhanced with the implementation of more formal review, or supervisory review, of general ledger transactions, such as journal entries, payroll registers, or check registers, etc. In addition, such review should be evidenced by the reviewer with their initials and the date. Such reviews will facilitate the identification and resolution of differences or unusual relationships in a timely manner.

### **State Shared Revenue**

Municipalities in Michigan, including the Township of Richmond, have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for over 30% of the Township's total General Fund revenue for the years ended June 30, 2005 and 2004. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, revenue sharing payments for the State's recent fiscal years ending September 30 were less than originally projected.

For the time being, local government has been spared additional revenue sharing cuts for fiscal year 2006, as the Governor's budget holds the State revenue sharing payments at approximately the 2004/2005 levels. But it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

### **Other Accounting Matters**

Employee Vacation Days – It is our understanding that a small group of employees are allowed to earn vacation time. It appears that formal procedures do not exist to record, track and relieve days earned by those employees eligible for vacation time. We encourage the Township to establish procedures to track earned time, which will facilitate determining the liability for unused, vested time at year-end on the government-wide, full-accrual basis financial statements.

Outstanding Checks - During our testing of the Township's bank reconciliations, we noted several checks that have remained outstanding (not cashed) for more than a year. If the payees cannot be located, such amounts should typically be turned over to the State of Michigan's unclaimed property division (commonly referred to as "escheats").

Supporting Documentation - Retention of documentation, typically in the form of invoices or monthly statements, is an important aspect of the cash disbursements process, providing evidence to support the expenditures of the Township. Supporting documentation was not

November 3, 2005

present at the Township offices for certain checks selected for audit testing, though Township personnel were able to obtain duplicate invoices from the vendor upon request. We recommend that the Township establish procedures to ensure that appropriate documentation is obtained before expenditures are made and that this support is maintained at the Township's offices.

Manual Checks - We recommend that the Township review its policies and procedures related to the use of manually written checks. Whenever transactions are initiated outside the accounting system, a higher risk of clerical or other errors is created. We recognize that the use of manual checks may be appropriate in circumstances where payment is needed on an urgent basis to avoid penalty, however these situations should be the exception, not standard practice.

Bond Activity - Current Township procedures prescribe that transactions related to building bonds be recorded in two separate general ledger accounts (one for receipts and one for disbursements). It was noted during our audit that these two accounts are not being used consistently. In some situations, receipts were recorded in the disbursements account and vice versa, while other transactions were posted to general ledger accounts other than the two designated for building bonds. Since this activity relates to monies held in an agency capacity by the Township on behalf of other parties, it is especially important that the transactions be properly segregated from the Township's operating activities. We encourage the Township to review procedures related to tracking bond monies and make any changes necessary to ensure proper procedures are consistently applied.

We would like to thank the Board for the continued opportunity to serve as auditors for the Township. If you have any questions regarding these or any other matters, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



Christina M. Kostiuk



Lisa C. Manetta